Economics Department, First Year (2011/2012)
Macroeconomics

Sheet 3

1. The main difference between nominal and real GDP is that:
   a. real GDP is adjusted for price changes while nominal is not.
   b. nominal GDP is adjusted for price changes while real is not.
   c. nominal GDP is better for comparing output across several years.
   d. real GDP increases more during periods of inflation.
   e. Keynes argued that nominal GDP was calculated incorrectly during the Great Depression.

2. If *potential GDP* is greater than *actual GDP* then:
   a. exports must be greater than imports.
   b. inflation has increased from the year before.
   c. there is probably some unemployment in the economy.
   d. comparisons should be made in *nominal* terms.
   e. *both* **a** and **b**.

3. Which of the following is a determinant of potential output in the long run?
   a. taxes.
   b. money.
   c. technology.
   d. capital investment.
   e. *both* **c** and **d**.

4. The short-run effect of increased defense spending that is not accommodated by increased taxation could be:
   a. higher prices and higher GDP.
   b. higher prices and lower GDP.
   c. lower prices and lower GDP.
   d. lower prices and higher GDP.
   e. lower prices and the same GDP.

Problems:

1. Table 1 includes hypothetical numbers for GDP in five different years.

TABLE 1

Year	***Nominal GDP***	***Real GDP***	***GDP Deflator***	***Percent Change In Real GDP***
1	____	3690	84	____
2	3800	____	91	____
3	4000	____	100	____
4	4240	____	106	____
5	____	4800	110	____

   a. Calculate real GDP in years 2, 3, and 4.
   b. Calculate nominal GDP in years 1 and 5.
   c. Explain the relationship between nominal and real GDP in year 3.
   d. Calculate the percentage change in real GDP from year to year.
   e. According to your calculations, which year was the best? Explain.
   f. Explain the growth rate in GDP from year 3 to year 4.
   g. According to your calculations, which year was the worst? Explain.

2. Show- using AD- AS graphs- how the following changes in the Macroeconomic Environment would affect price and output levels in the economy:

1. Large cut in personal taxes
2. Reduction in government taxation of inputs
3. Reduction in money supply by the central bank